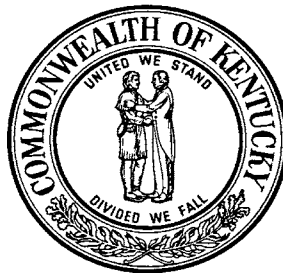


**REPORT OF THE AUDIT OF THE
FORMER BOURBON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 24, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER BOURBON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 24, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for former Bourbon County Sheriff as of April 24, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$5,661,804 for the districts for 2001 taxes, retaining commissions of \$207,529 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,440,471 to the districts for 2001 Taxes. Refunds of \$63 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donnie Foley, Bourbon County Judge/Executive
Honorable John Ransdell, Former Bourbon County Sheriff
Honorable Mark Matthews, Bourbon County Sheriff
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the former Bourbon County Sheriff's Settlement - 2001 Taxes as of April 24, 2002. This tax settlement is the responsibility of the former Bourbon County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Bourbon County Sheriff's taxes charged, credited, and paid as of April 24, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

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Honorable Mark Matthews, Bourbon County Sheriff

Members of the Bourbon County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2003 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

March 6, 2003

BOURBON COUNTY
JOHN RANDELL, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

April 24, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 732,564	\$ 699,266	\$ 2,388,180	\$ 905,852
Tangible Personal Property	75,301	69,071	251,147	309,614
Intangible Personal Property				96,714
Omitted Taxes	383	375	1,578	533
Franchise Corporation	46,314	43,025	136,249	
Additional Billings	1,775	1,729	7,163	2,371
Limestone, Sand, and Mineral Reserves	254	242	1,040	313
Bank Franchises	32,467			
Penalties	5,984	5,697	18,634	9,078
Adjusted to Sheriff's Receipt	354	343	3	244
Gross Chargeable to Sheriff	<u>\$ 895,396</u>	<u>\$ 819,748</u>	<u>\$ 2,803,994</u>	<u>\$ 1,324,719</u>
<u>Credits</u>				
Exonerations	\$ 974	\$ 930	\$ 2,620	\$ 1,205
Discounts	12,317	11,287	39,331	20,143
Delinquents:				
Real Estate	14,138	13,495	39,619	17,479
Tangible Personal Property	906	831	2,361	3,268
Intangible Personal Property				851
Uncollected Franchise	52	49	197	
Total Credits	<u>\$ 28,387</u>	<u>\$ 26,592</u>	<u>\$ 84,128</u>	<u>\$ 42,946</u>
Taxes Collected	\$ 867,009	\$ 793,156	\$ 2,719,866	\$ 1,281,773
Less: Commissions *	37,135	33,709	81,922	54,763
Taxes Due	\$ 829,874	\$ 759,447	\$ 2,637,944	\$ 1,227,010
Taxes Paid	828,020	757,642	2,630,377	1,224,432
Refunds (Current and Prior Year)	1,859	1,807	7,622	2,579
(Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (5)</u>	<u>\$ (2)</u>	<u>\$ (55)</u>	<u>\$ (1)</u>

* And ** See Next Page

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
JOHN RANDELL, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
April 24, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,931,938
4% on	\$	32,604
3% on	\$	<u>2,687,262</u>
	\$	<u>5,661,804</u>

** Special Taxing Districts:

Library District	\$	<u>(2)</u>
(Refund Due Sheriff)	\$	<u><u>(2)</u></u>

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENTS

April 24, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 24, 2002, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2002
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2001 through April 24, 2002.

Note 4. Interest Income

The former Bourbon County Sheriff earned \$4,982 as interest income on 2001 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Bourbon County Sheriff collected \$24,973 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Bourbon County Sheriff collected \$1,815 of advertising costs allowed by KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute.

COMMENT AND RECOMMENDATION

BOURBON COUNTY
JOHN RANDELL, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

April 24, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Since the Sheriff is no longer an elected official as of the audit report date, no recommendations for implementing compensating controls to offset the lack of segregation of duties will be made. However, we did communicate with the newly elected official about the need for proper segregation of duties within his office.

Former Sheriff's Response:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in current year audit report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Bourbon County Sheriff's Settlement - 2001 Taxes as of April 24, 2002, and have issued our report thereon dated March 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Bourbon County Sheriff's Settlement - 2001 Taxes as of April 24, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bourbon County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- Lacks Adequate Segregation Of Duties

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 6, 2003

